

December 4, 2008

Investment Policy Subcommittee
California Public Employees' Retirement System
Lincoln Plaza, 400 P Street
Sacramento, CA 95814

Re: Statement of Investment Policy for Real Estate (Second Reading)

Dear Members of the Investment Policy Subcommittee:

PCA Real Estate Advisors, Inc. ("PCA RE") reviewed Staff's proposed modifications to the above referenced policy ("Real Estate Policy or Policy"). We understand that Staff is bringing the Policy back to the Subcommittee in an effort to continue the dialogue with the Subcommittee to ensure all points of concern are addressed.

In September 2007, the Investment Committee approved a new Real Estate Strategic Plan ("Strategic Plan") for the Real Estate Portfolio in which PCA RE provided certain recommendations. One of these recommendations was to review the existing policies in an effort to reflect a new investment approach with a global orientation and to streamline it for more effective investment management. In parallel, the Investment Office had initiated the Investment Policy Review and Consolidation Project ("Project") in an effort to standardize the investment policies across all asset classes.

At the October 2008 Policy Subcommittee, CalPERS staff submitted a revised, overarching real estate policy for consideration. The Policy Subcommittee provided feedback on a myriad of items, including more definition as it relates to the responsibilities of Staff and the Real Estate Consultants during the investment process. The policy has been modified to address these issues. The roles and responsibilities, in particular, are more detailed and provide cross reference to the approved delegations. In addition, key deliverables to the Investment Committee are outlined which should enhance monitoring and oversight.

We do want to reiterate that the Staff Internal Procedures Manual is an important component along with the Policy and delegations. The Real Estate Portfolio is large and complex involving many different participants both internal and external to CalPERS. As such, we believe it is vitally important that investment management procedures are updated and maintained in the Staff Internal Procedures Manual. We further recommend that the preparation of updated investment management procedures is completed no later than September 30, 2009 as noted in the agenda item. Preparation of written procedures will provide guidance to Staff, consultants and managers/partners in the day-to-day execution of the investment process.

PCA Real Estate Advisors, Inc.

In summary, PCA RE concurs with Staff's modifications. We believe this new policy will aid all participants in the investment management of CalPERS' Real Estate Portfolio.

Very truly yours,



Nori Gerardo Lietz
Managing Director

Cc: Anne Stausboll
Ted Eliopoulos
Jim Hurley
Mark Bullen
Pam Alsterlind